



Edition: 09/2010

MINNESOTA REQUIREMENTS, LIFE INSURANCE – VARIABLE

I. Minnesota Specific Requirements to be Included in Life Insurance Policies

The following are the requirements that the department analysts will be applying to variable life insurance filings submitted to the department. **These requirements are in addition to the requirements contained in the Individual and Group Life Insurance Requirements and the Actuarial Review Criteria.**

A. Contract Provisions, Variable Life

Minn. Stat. §61A.15, subd. 2 Any life insurance contract on a variable basis delivered or issued for delivery in this state shall stipulate the investment increment factor to be used in computing the dollar amount of variable benefits, or other variable contractual payments or values thereunder and shall guarantee that expense and mortality results shall not adversely affect such dollar amounts.

B. Contract Provisions

Minn. Stat. §61A.16 Any contract on a variable basis providing benefits payable in variable amounts delivered or issued for delivery in this state shall contain a statement of the essential features of the procedures to be followed by the insurance company in determining the dollar amount of such variable benefits. Any such contract, including a group contract and any certificate in evidence of variable benefits issued thereunder, shall state the manner in which such dollar amounts will vary and shall contain on its first page a statement to the effect that the benefits thereunder are on a variable basis.

C. Variable Life Rules

Minn. R. Part 2750.1200, Mandatory Policy Benefit and Design Requirements Variable life insurance policies delivered or issued for delivery in this state shall comply with the following minimum requirements:

- A. Mortality and expense risk shall be borne by the insurer. The mortality and expense charges shall be subject to the maximums stated in the contract.

B. For scheduled premium policies, a minimum death benefit shall be provided in an amount at least equal to the initial face amount of the policy so long as premiums are duly paid, subject to the provisions of part 2750.1400, item B.

C. The policy shall reflect the investment experience of one or more separate accounts established and maintained by the insurer. The insurer must demonstrate that the reflection of investment experience in the variable life insurance policy is actuarially sound.

D. Each variable life insurance policy shall be credited with the full amount of the net investment return applied to the benefit base.

E. Any changes in variable death benefits of each variable life insurance policy shall be determined at least annually.

F. The cash value of each variable life insurance policy shall be determined at least monthly. The method of computation of cash values and other nonforfeiture benefits, as described either in the policy or in a statement filed with the commissioner or person fulfilling the equivalent function of the state in which the policy is delivered, or issued for delivery, shall be in accordance with actuarial procedures that recognize the variable nature of the policy. The method of computation must be such that, if the net investment return credited to the policy at all times from the date of issue should be equal to the assumed investment rate with premiums and benefits determined accordingly under the terms of the policy, then the resulting cash values and other nonforfeiture benefits must be at least equal to the minimum values required by Minnesota Statutes, section 61A.24, the Standard Nonforfeiture Law, for a general account policy with these premiums and benefits. The assumed investment rate shall not exceed the maximum interest rate permitted under Minnesota Statutes, section 61A.24. If the policy does not contain an assumed investment rate, this demonstration must be based on the maximum interest rate permitted under Minnesota Statutes section 61A.24. The method of computation may disregard incidental minimum guarantees as to the dollar amounts payable. Incidental minimum guarantees include, for example, but are not limited to, a guarantee that the amount payable at death or maturity shall be at least equal to the amount that otherwise would have been payable if the net investment return credited to the policy at all times from the date of issue had been equal to the assumed investment rate.

G. The computation of values required for each variable life insurance policy may be based upon reasonable and necessary approximations.

Minn. R. Part 2750.1300 Mandatory Policy Provisions Every variable life insurance policy filed for approval in this state shall contain at least the following:

A. The cover page or pages corresponding to the cover page of each policy shall contain:

- (1) a prominent statement in either contrasting color or in boldface type that the amount or duration of death benefit may be variable or fixed under specified conditions;
- (2) a prominent statement in either contrasting color or in boldface type that cash values may increase or decrease in accordance with the experience of the separate account subject to any specified minimum guarantees;
- (3) a statement describing any minimum death benefit required pursuant to part 2750.1200, item C;
- (4) the method, or a reference to the policy provision, which describes the method for determining the amount of insurance payable at death;
- (5) a captioned provision that the policyholder may return the variable life insurance policy within ten days of receipt of the policy by the policyholder, and receive a refund as required by state law;
- (6) such other items as are currently required by Minnesota Statutes, chapter 61A.

B. For scheduled premium policies, a provision for a grace period of not less than 31 days from the premium due date which shall provide that where the premium is paid within the grace period, policy values will be the same, except for the deduction of any overdue premium, as if the premium were paid on or before the due date.

For flexible premium policies, the variable life insurance policy must contain a provision for a grace period beginning on the policy processing day when the total charges authorized by the policy that are necessary to keep the policy in force until the next policy processing day exceed the amounts available under the policy to pay these charges in accordance with the terms of the policy. The grace period shall end on a date not less than 61 days after the mailing date of the Report to Policyholders required by part 2750.4300, item C.

The death benefit payable during the grace period will equal the death benefit in effect immediately prior to the period less any overdue charges. If the policy processing days occur monthly, the insurer may require the payment of not more than three times the charges which were due on the policy processing day on which the amounts available under the policy were insufficient to pay all charges authorized by the policy that are necessary to keep the policy in force until the next policy processing day.

C. For scheduled premium policies, a provision that the policy will be reinstated at any time within three years from the date of default upon the written

application of the insured and evidence of insurability, including good health, satisfactory to the insurer, unless the cash surrender value has been paid or the period of extended insurance has expired, upon the payment of any outstanding indebtedness arising subsequent to the end of the grace period following the date of default together with accrued interest thereon to the date of reinstatement and payment of an amount not exceeding the greater of:

(1) all overdue premiums with interest at a rate not exceeding eight percent per annum compounded annually and any indebtedness in effect at the end of the grace period following the date of default with interest at a rate not exceeding eight percent per annum compounded annually.

(2) 110 percent of the increase in cash value resulting from reinstatement plus all overdue premiums for incidental insurance benefits with interest at a rate not exceeding eight percent per annum compounded annually.

D. A full description of the benefit base and of the method of calculation and application of any factors used to adjust variable benefits under the policy.

E. A provision designating the separate account to be used and stating that:

(1) the assets of the separate account shall be available to cover the liabilities of the general account of the insurer only to the extent that the assets of the separate account exceed the liabilities of the separate account arising under the variable life insurance policies supported by the separate account; and

(2) the assets of the separate account shall be valued at least as often as any policy benefits vary but at least monthly.

F. A provision stating that the approval process for a change in the investment policy of the separate account is on file with the commissioner.

G. A provision that the policy shall be incontestable by the insurer after it has been in force for two years during the lifetime of the insured; provided, however, that any increase in the amount of the policy's death benefits subsequent to the policy issue date, which increase occurred upon a new application or request of the owner and was subject to satisfactory proof of the insured's insurability, shall be incontestable after an increase has been in force, during the lifetime of the insured, for two years from the date of issue of the increase.

H. A provision that payment of variable death benefits in excess of any minimum death benefits, cash values, policy loans, or partial withdrawals (except when used to pay premiums) or partial surrenders may be deferred:

(1) for up to six months from the date of request, if such payments are based on policy values which do not depend on the investment performance of the separate account; or

(2) otherwise for any period during which the New York Stock Exchange is closed for trading (except for normal holiday closing) or when the Securities and Exchange Commission has determined that a state of emergency exists which may make such payment impractical.

I. If settlement options are provided, at least one option shall be provided on a fixed basis only.

J. A description of the basis for computing the cash value and the surrender value under the policy shall be included.

K. Premiums or changes for incidental insurance benefits shall be stated separately.

L. A provision for nonforfeiture insurance benefits. The insurer may establish a reasonable minimum cash value below which nonforfeiture insurance options will not be available.

D. Policy Loan Provisions

Minn. R. Part 2750.1400 Every variable life insurance policy, **other than term insurance policies and pure endowment policies**, delivered or issued for delivery in this state must contain provisions for policy loans after the policy has been in force for three full years which are not less favorable to the policyholder than the following:

A. At least 75 percent of the policy's cash surrender value may be borrowed.

B. The amount borrowed shall bear interest at a rate not to exceed that permitted by Minnesota statutes Section, 61A.03.

C. Any indebtedness shall be deducted from the proceeds payable on death.

D. Any indebtedness shall be deducted from the cash surrender value upon surrender or in determining any nonforfeiture benefit.

E. **For scheduled premium policies**, whenever the indebtedness exceeds the cash surrender value, the insurer shall give notice of any intent to cancel the policy if the excess indebtedness is not repaid within 31 days after the date of mailing of the notice. **For flexible premium policies**, whenever the total charges authorized by the policy that are necessary to keep the policy in force until the next following policy processing day exceed the amounts available under the policy to pay these charges, a report must be sent to the policyholder containing the information specified by part 2750.4300, item C.

F. The policy may provide that if, at any time, so long as premiums are duly paid, the variable death benefit is less than it would have been if no loan or withdrawal had ever been made, the policyholder may increase such variable death benefit up to what it would have been if there had been no loan or withdrawal by paying an amount not exceeding 110 percent of the corresponding increase in cash value and by furnishing such evidence of insurability as the insurer may request.

G. The policy loan provisions shall be constructed so that variable life insurance policyholders who have not exercised this provision are not disadvantaged by the exercise of it.

H. Amounts paid to the policyholders upon the exercise of any policy loan provision shall be withdrawn from the separate account and shall be returned to the separate account upon repayment except that a stock insurer may provide the amounts for policy loans from the general account.

E. Other Policy Provisions

Minn. R. Part 2750.1500 Other policy provisions include the following:

A. Incidental insurance benefits, if offered, may be offered on a fixed or variable basis.

B. Policies issued on a participating basis shall offer to pay dividend amounts in cash. In addition, the policies may offer the following dividend options:

- (1) the amount of the dividend may be credited against premium payments;
- (2) the amount of the dividend may be applied to provide amounts of additional fixed or variable benefit life insurance;
- (3) the amount of the dividend may be deposited in the general account at a specified minimum rate of interest;
- (4) the amount of the dividend may be applied to provide paid-up amounts of fixed benefit one-term insurance;
- (5) the amount of the dividend may be deposited as a variable deposit in a separate account.

C. A provision allowing the policyholder to elect in writing in the application for the policy or thereafter an automatic premium loan on a basis not less favorable than that required of policy loans under part 2750.1400, except that a restriction that no more than two consecutive premiums can be paid under this provision may be imposed.

D. An exclusion for suicide within two years of the issue date of the policy. However, to the extent of the increased death benefits only, the policy may provide an exclusion for suicide within two years of any increase in death

benefits which results from an application of the owner subsequent to the policy issue date.

E. A provision allowing the policyholder to make partial withdrawals.

F. Any other policy provision not inconsistent with chapter 2750 or Minnesota law.

F. Variable Life Policies, Application of Other Laws

Minn. Stat. §61A.21 Any contract on a variable basis, delivered or issued for delivery in this state, shall contain in substance provisions for grace, settlement option, loan or withdrawal and nonforfeiture appropriate to such a contract and a life insurance contract on a variable basis should also contain in substance a provision for reinstatement to such a contract.